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RETALIATORY DUTIES

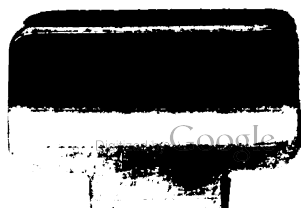
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RETALIATORY DUTIES

BY

H. DIETZEL

PROFESSOR AT THE UNIVERSITY OF BONN

TRANSLATED BY

D. W. SIMON, D.D.

AND

W. OSBORNE BRIGSTOCKE

FOR THE UNIONIST FREE TRADE CLUB



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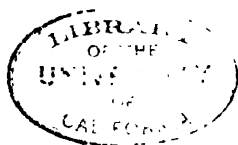
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RETALIATORY DUTIES



INTRODUCTORY REMARKS

FREE-traders have for a considerable time had to fight with two groups of opponents.

The *one* group — the *Protectionists* — absolutely rejects the principle of the “Open door.” In its judgment, tariff-walls should, under all circumstances, be erected for the purpose of preventing foreign competition—tariff-walls, namely, to shut out or impede the entrance of all articles in which foreign countries compete with the home country. Their height also should be proportionate to the intensity of the competition; that is, the less the wares affected cost a foreign country to produce, as compared with

the home country, and the lower the prices at which in consequence the foreign country can offer them, the higher must be the duties.

The *other* group—the *Retaliators*—allows indeed that Free-trade is in itself the best system, but maintains that it can only be adopted conditionally, on the condition, namely, that foreign countries also adopt it; that is, admit home products duty-free. If, however, foreign countries erect tariff-walls, the home country is bound to retaliate with the view of securing freer access to the markets of these countries. It must therefore impose duties, not for the sake of excluding foreign imports, but for the sake of converting other nations to the principle of the “Open door.”

The advocates of the principle of Protection, *i.e.*, of the principle which in its extreme form (a form which we Germans now often give to it) runs, that every nation ought to produce everything that it can produce, and certainly, at the very least, go on producing what it has already begun to produce, the advocates of

this principle regard the "protection of national labour" as a fundamental necessity. Even though tariff-walls were everywhere else razed to the ground, Germany would be bound to maintain them intact, nay more, to build them still higher, because foreign competition would then threaten them even more than at present.

The representatives of the principle of Retaliation, on the contrary, would regard every step taken by other nations on the road to Free-trade as indicating the possibility of Germany's following suit, at all events as far as the nations are concerned which had set the example. They hold also that if tariff-walls were elsewhere levelled to the ground, Germany would be bound to level hers.

Though the "Retaliators," as they are now termed in England, largely operate with arguments similar to those employed by the "Protectionists," the two groups must be carefully distinguished.

Whilst a Free-trader may regard the Retaliator's doctrine that pure, "one-sided Free-trade" is saddled with disadvantages as a radical error; whilst he may also treat quite sceptically the hope of internationalising Free-trade by means of retaliative duties; yet his attitude towards conditional Free-traders, because their aim and his own are the same, will be essentially different from that towards Protectionists, and the tone of discussion with them will be much milder. The following pages are an attempt at a criticism in the friendly tone just hinted at.

The theme is one of the greatest practical interest; as a matter of fact, tariff-policy is being considered by various countries at the present day from the point of view of "Retaliation."

In England the policy of the Cabinet since Chamberlain's resignation has been based exclusively on the principle of Retaliation. The imposition of duties on certain foreign goods is advocated by Balfour solely as a means of inducing the countries from which

they are exported to lower the duties put by them on English wares. Although he writes : "I throw no doubt on the Free-trade theory when expressed with due limitations" (the limitation, namely, that it be universally adopted), he himself would probably allow the principle of Protection also a certain influence on tariff-policy. But the mass of his followers—Hicks Beach, above all—want *only* "Retaliation." They would demand the immediate removal of any hindrances to importation that might eventually be adopted by England, as soon as other nations removed the obstacles which are now laid in the way of English exports. "When the concession aimed at is attained, the retaliative tariff would, of course, be done away with."¹

The position in Germany is somewhat different. The newest line indeed is to plead in justification of the increase of duty on so many articles in the tariff of 1902 the intention to retaliate against the United States, Russia, and so forth, with a view to getting

¹ Burrell in the *Westminster Review*, 1904, p. 165.

them to make concessions to our export trade. This reason has been urged both with frequency and emphasis. But the tariff-policy of the German Cabinet is not, like that of the British, exclusively directed to Retaliation. At one time we are told from the Government Benches that we need higher import duties in order that foreign wares may not enter in still greater quantities and check the existing production of analogous national wares. At other times it is said: "We need them in order to compel other countries to remove their tariff-barriers."

Count Posadowski has spoken sometimes as if he himself were really a pure Retaliationist; as if Free-trade were in his view intrinsically the best system; and as if Germany closed its doors only because its competitors were bent on maintaining Protection. "*We cannot autonomically* introduce Free-trade," he said; "our industries, etc., cannot form a 'Free-trade oasis' in the midst of a great desert of Protection."¹ Any one

¹ Quite like Balfour, "in a world of Protectionists."

ignorant of the *credo* of our Government as regards tariff-policy might well conclude from such expressions that it was quite ready to unfurl the Free-trade flag as soon as the nations which are now Protectionist should do the same.

But the conclusion, alas! would be quite wrong. The good example set in 1879 by England, Holland, and Denmark—that is, by a number of countries of the highest importance for our foreign commerce—did not cause our legislative authorities to remain faithful to the *Regime Delbrück*; as little likelihood is there that a future adoption of the Free-trade principle by Russia and the United States would induce it to pursue the same course. As long as the “Kardoff majority” exists, there is no chance whatever of their drawing the consequences of the Retaliation principle, which has been so frequently placarded. It is quite permissible, notwithstanding, to say, that our tariff-policy is influenced by, or tends towards, Retaliation. In point of fact, the tariff of 1902 is in great part intelligible

solely in the light of the principle of Retaliation; in other words, it was the outcome of an effort to possess weapons for use in negotiating treaties of commerce.

Criticism of the principle of Retaliation, however, requires a distinction to be drawn between the two different forms which it assumes.

1. According to the *one* variant, Retaliation is to be resorted to only *now and then*; that is, a so-called fighting-duties policy, or a policy of retort, is alone justifiable. In the case of a prejudicial alteration in the tariff of another people—specially in the nowadays practically most important case of our exports being more heavily taxed—it is demanded that we should resort to certain tariff-reprisals with a view, as Frederick the Great said, to “bring our bad neighbour to his senses,” to induce him to return to the *status quo ante*. By means of such retaliation this may be re-established; nay more, it is even possible that commercial exchange between us and our opponent may become freer and less

hindered than before, and a service be thus done to the cause of Free-trade.

2. According to the *second* variant, tariffs ought to be permanently framed in conformity with the principle of Retaliation ; the true and right policy is one of so-called *reciprocity*. It is demanded, namely, that a national tariff shall be a more or less Free-trade, or more or less Protectionist, according as the tariffs of other nations are the one or the other. Light import duties for those which treat us well ; heavier duties, by way of penalty, for those who treat us badly. By means of such differentiation, a pressure might be brought to bear on the nation of whose commercial hostility we have to complain, which would lead them to concede to us lower rates as equivalents for the lower rates conceded by us.

Opinions differ among the advocates of reciprocity with regard to the construction of a differential tariff. Some of them would have only *one* general tariff combined with *one* conventional tariff. Others, on the con-

trary, would have different tariffs for different nations, varying according to the degree of the concessions they make.

Formerly the system of differential tariffs had almost universal vogue, one too corresponding to that described last. In the mercantile era it was regarded as really self-evident that to each country special treatment should be meted out (Oncken, article, *Handels-verträge* im "Handwörterbuch der Staats-wissenschaften," p. 355).

About the year 1880, however, this system received a vigorous blow. Even the nations which had not yielded to the Free-trade drift of the time, but had clung to Protectionism, mostly let it drop. It was found to be, first of all, too complicated (certificates of origin!); then, that it exercised a demoralising influence by putting a premium on false declarations regarding the origin of imports; and, finally, that it attained its object, namely, the punishment of commercially hostile countries, only very imperfectly. In many directions, accord-

ingly, the method of *dualistic combination* of manifold differential tariffs was now adopted—a combination which left only *one* “general” tariff and *one* “conventional” tariff, the latter an outcome of treaties of commerce which contained the *most highly favoured nation clause*. If, for example, a conventional tariff had been agreed upon with country A, and concessions were made in later treaties to countries B, C, and D which went beyond those made to A, then, on the ground of the most favoured nation clause, A at once, as a matter of course, received the right conceded to B, and concessions made to C and D were, as a matter of course, conceded to A and B. Any lowering or conjunction of duties conceded in one treaty involved a similar correction or alteration of the *one* conventional tariff for all the treaty states.

Some states, however (the United States, Central and South American States, *e.g.*, Brazil, Eastern States, *e.g.*, Persia, which proclaimed a much higher tariff in March 1904, and at the same time entered into an agreement

which secured for Russia very decided preferential treatment in the Persian market), still cling in *principle*, at all events, to the mercantilistic tactic of "treating each country in a special way." If they have conceded by treaty to country A lower duties than those of their general tariff, and afterwards conclude a treaty with country B, they do not, as a matter of course, concede the same advantages to country A, but first require certain compensatory concessions.

Since the 'sixties, Germany has adopted the practice of the "unconditional most favoured country clause." So far as it concludes treaties, it insists on the application of the clause to itself, and concedes the same without restriction to its partner. Of late, however, complaints have been raised against this practice. A short time ago, for example, Count Schwerin-Löwitz, at the meeting of the "German Agricultural Council," contended in his report that

"The system of the unconditional most favoured nation treatment would have to be modified by the inclusion in new treaties of a

clause to the effect that other nations could share in the advantages conceded in the treaties, not on the principle of the most favoured nation treatment, but only on the condition of their making tariff concessions of equal value."

It is obvious, of course, that these two variants of the retaliative principle are by no means mutually exclusive. On the contrary, whosoever aims at the permanent establishment of tariff reciprocity, will also in consistency approve of the introduction of fighting duties, according to the circumstances, more or less frequently, in dealing with nations which impose exceptionally high import duties.

The converse, however, does not hold good. He who grants that here and there a tariff-fight may be carried on, does not at all need to allow that such fighting should "be reduced to a system."

Prince Bismarck, for example, in the middle of the 'seventies, had in mind merely a policy of retort, but, so far as one can judge, would have refused a policy of reciprocity. At the present moment, too, Hicks Beach in England

wants merely a policy of retort; whereas Balfour seems to aim at one of reciprocity.

"The only alternative is to do to *foreign nations what they always do to each other*, and instead of appealing to economic theories in which they wholly disbelieve, to use fiscal inducements which they thoroughly understand." From this much-quoted programmatic utterance of the Premier (Balfour), it may be gathered that his intention was to follow the example of Germany, and "to do to these countries what they do to each other"; that is, to operate against them with a *standing* apparatus of retaliative duties.

The *Economist*, indeed, was of opinion (1903, p. 2140) that what Balfour wanted was only that "an *exceptional* duty should in *special* cases be enforced as a penal measure." But so far as I am aware he has never expressly taken up this position.

Whether he really aimed at tariff reform merely as "a means to securing Free-trade," or whether, in case the elections result in favour of Chamberlain's programme, he will aim at it "as a means for Pro-

tection," it is impossible to say. The only thing that seems certain to me is that his understanding of the principle of Retaliation differs from that of his former colleague, Hicks Beach. The *latter* would apparently have Retaliation "used *more as a menace than as an actual part* of the machinery of the national finance" (*Economist*, 1903, p. 1963); that is, he approves only of the policy of retort. The *former* would make the principle of Retaliation a permanent factor of the national fiscal machinery; that is, he goes further, and approves also of the policy of reciprocity.

Before subjecting these two variants of the retaliative principle each to separate criticism, it is necessary to call special attention to some considerations which hold good generally of retaliative policy.

First of all, it is not permissible to justify it simply from the point of view of *national honour*. "The natural sentiment of revenge," says Adam Smith, "impels men to retaliate; for this reason States rarely fail to resort to Retaliation." This was, alas! the case during

the Age of the Renaissance. From this "Natural Sentiment" sprang in those days innumerable feuds, carried on, at one time, with *duty*-cannons, at another time with actual cannons.

It is the desire for revenge which again at the present day enlists so many under the banner of the policy of Retaliation. How often is the question asked—Is it not a disgrace for us that other people should tax our goods heavily, when we impose only light duties, or even none at all, on theirs? Does not national honour bid us take up arms against such unfairness? to give as much as we take? and when we have to deal with a rogue, more? If we act otherwise, shall we not continue to deserve the taunt which Hegel, after the battle of Iena, flung at the Germans as "the Quaker-nations of Europe," which submitted meekly to every trick, and "when it had received a blow on one cheek, put itself in a posture to receive one on the other?"

As among us, so on the other side of the Channel, the "natural sentiment of revenge"

is being inflamed for the purposes of the Retaliation propaganda. But there can be no doubt whatever that all such motives must be set aside. To fight a fiscal duel with foreign countries, in order that the insult or disgrace of being badly treated in fiscal matters may not stick to us, would be statesmanship worthy of a College Freshman (Fuchs), with his thin-skinned readiness to pick a quarrel for the least thing.

For it is only in the rarest cases that anything of the nature of insult is designed. The nations which "treat us badly" have mostly framed their tariffs, not with the intention of inflicting a wrong on us; what they have alone aimed at, is their own economic advantage, as they understand it. Nor have we imposed light duties or none at all on the goods they export to us in order to benefit them, but solely because we believed that by doing so we should best serve our own economic interests—because we considered it advantageous for us to procure certain foreign products without artificial enhancement of price. To be angry at foreign countries as unthankful, because they

regard a fiscal policy different from ours as advantageous for themselves, and to deduce thence the necessity for retaliation is hypocrisy.

This form of hypocrisy, now so often practised in England, is neatly satirised by Godard in the *Westminster Review*, 1903, p. 630.

Hitherto we have been too considerate towards them; we have generously opened our ports to their goods in a spirit of magnanimity which they have failed to appreciate; we have bought their produce from philanthropic motives, and not because we wanted it, or because we found it cost us less, or because it fed our people and fed our machinery. . . . We have set a noble example but it does not pay; we have been too neglectful of our own interests (it is a national characteristic) and advantage has been taken of this.

It may indeed happen that a nation introduces a tariff-divergence manifestly or perhaps even avowedly for the purpose of doing us an injury, and certainly we are as little obliged to put up with tariff-trickery as with other sorts of trickery.¹ But to try

¹ How such fiscal trickery is best to be thwarted is always a *quæstio facti*. Possibly by means of tariff-reprisals; possibly better by force of arms.

to get public opinion to regard it as always an "insult" or "unfairness" for a nation to put higher duties on our wares than we put on theirs, or to tax certain articles with which we chiefly supply it more heavily than before, is to enkindle and foster passion, jealousy, and prejudice.

Secondly.—Because the feeling of revenge is a "natural" one, and because forces are everywhere at work which make it their business to excite it—in Germany the "Pan Germans," in England the "Jingos," and so on—whenever a retaliative measure is adopted, we may be quite sure that it will immediately evoke a counter retaliation. If we, on our part, resort to retaliation, the people affected by it will also retaliate; if we go in for reciprocity, other nations will do the same. In short, a procedure which is designed to facilitate becomes a serious hindrance to the international exchange of goods.

Thirdly.—Notwithstanding this—notwithstanding the possibility, nay more, at times the very great probability, that the actual effect of a retaliative policy may be the very

opposite to that intended—such policy cannot be *a limine* condemned or set aside.

There may be good policy in retaliations (of this kind) when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods.¹

The history of Economics supplies a good number of examples of victories having been gained under the banner of Retaliation.

The following are some of the kind.

In the year 1697 England prohibited the import of Flemish lace. The Flemish Government retorted by prohibiting the introduction of English woollen goods. Thereupon England in 1700 removed its prohibition of lace, and Flanders then in turn withdrew its prohibition of woollen goods. (Adam Smith, Book iv., ch. ii.).

In 1787 the United States enacted a

¹ Adam Smith, "Wealth of Nations" (1794), Book iv., chap. ii., p. 201.

Navigation Act, framed on the pattern of Cromwell's, which was intended to induce England to revoke the Navigation Act that had been directed against the United States. The first result of this retaliative measure was serious injury to the shipping of both countries. "In consequence of the two Navigation Acts, American products could only be brought to England in English bottoms, and English products to America only in American bottoms. Neither of the two countries could dispense with the products of the other. For twenty-eight years American ships were forced to cross the Atlantic empty, followed by English ships conveying rice, cotton, and tobacco; whilst, on the other hand, English ships crossed the ocean with ballast only, followed by American vessels conveying cotton goods, stoneware, and iron-ware." At last, in 1815, a convention was agreed on, which conceded to the vessels of both nations the right of freely carrying their respective products to both countries. Some estimate of the advantage conferred by this liberty on the shipping of both countries

may be formed from the fact that the tonnage of British ships entering American harbours increased from 53,000 tons in 1821 to 760,000 in 1844, that of American vessels entering British ports in the same period from 45,000 to 600,000 tons. (Prince-Smith, vol. ii., p. 366f., Ed. 1879. And "Aus den Verhandlungen der Spezialkommission des Parlaments über die Navigationsakte von Dr Asher," Berlin 1848, Hermann Schulze.)

It was a long time before this retaliative action on the part of America took effect. But, apart from such action, England would probably have kept its Navigation Act in force against the United States long after 1815, and the advantage due to its abolition would therefore have accrued much later.

The same end, namely to bring England to reason, was aimed at by the Prussian Ordinance of 1822, which saddled foreign ships with much heavier flag-dues than theretofore. This retaliative act at once took effect. As early as 1823, a treaty was concluded between Prussia and England, providing that neither nation, for the future,

should impose "discriminating duties" either on the ships or the goods of the other (Mr Culloch, Ed. 1863, note xii. to Adam Smith, p. 539).

Prince - Smith reports that this procedure on the part of Prussia was suggested by the British Cabinet itself. It wished to alter the Navigation Acts by reciprocity treaties for the direct intercourse with Prussia, but "encountered too great resistance from the party in Parliament, which wished trade to be restricted. In order to frighten this party, the English Ministry asked the Prussian Government to come to a secret agreement with them to impose the flag-dues previously referred to, in order that they might be able to overcome the opposition by a sort of surprise" — which also succeeded. The retort in question would have been far too risky for Prussia, if it had not had the guarantee that the measure was meant to be merely a temporary mock-fight. And had the English Government not previously resolved to modify the Navigation Acts, they would certainly not have been forced into it

by Prussia. An example like this is therefore *no* evidence of the possibility of securing concessions by a policy of Retaliation, of paving the way to Free-trade by means of the restriction of commerce (vol. ii., pp. 299-301). So far Prince-Smith.

For my part, I believe in the possibility. For so far as I can see, no one disputes that Prussia's measure really did frighten the party in England that sought to restrict commerce, and did incline it to enter into a treaty with Prussia.

Still more recently, it may be noted that Brazil succeeded in inducing certain nations to lower their duties on coffee by threatening differential treatment; and that Germany's tariff-war against Russia in 1892-94 ended successfully in the conclusion of a commercial treaty.

To these facts, especially to the fact that England's threat to impose differential duties on continental bounty-aided sugar produced immediate fruit, English Retaliators appeal, when they wish to refute obstinate Free-traders who maintain that the actual result

of Retaliation is *always* the very opposite of the one which is intended.¹

Retaliators are right when they reply to these latter that experience after all teaches the reverse. But they are wrong in arguing, as they often do, that, "As regards the Sugar question, England carried its point without further ado: therefore, if she choose to persist in the same course, and merely threaten nations with retaliation which treat her badly, she will conquer without difficulty. They will never venture to begin a tariff-war with the country, which is, for them, so important a market."

In reasoning thus, the followers of Balfour—as the *Economist* pointed out in a recent trenchant article (1903, p. 2004)—commit the same mistake as the "Jingos" of 1899, when they maintained, as a large section of them did, that if England only took high ground, that is, used bluff, the Boers would never go to war, and would therefore be speedily conquered. It was a

¹ Similarly Prince-Smith, *passim*, "The only results of retaliative duties have always been sterner reprisals" (vol. ii., p. 300).

“dangerous and sinister game” to play with public opinion. It might prove an exceedingly dangerous and disastrous game, if Retaliators now succeeded in persuading the English people that in adopting a policy of fiscal Retaliation, it would itself risk nothing whatever.

Whether cases of Retaliation that have been successful are more numerous than those which have been a failure is a question for discussion; but the impossibility of laying down general rules as to the chances of success is quite beyond doubt, nay, more, it can be proved to demonstration by the very examples themselves of success. As Adam Smith emphatically states :

“Whether a policy of Retaliation should be ventured on or not cannot be deduced from the ‘science of a legislator whose deliberations ought to be governed by general principles which are always the same,’ but solely from the routine of the ‘insidious and crafty animal, vulgarly called statesman or politician, whose councils are directed by *the momentary fluctuations of affairs.*’”

At one time the commercial and political outlook may be such that retaliative measures have a decided prospect of success ; at another time failure may be almost equally certain.

Fourthly. — Even though the conjuncture should be favourable, “the insidious and crafty animal,” before embarking in an undertaking which, under all circumstances, must be risky, will have to reckon with the fact that a tariff-war as certainly involves expense, as a war with powder and shot ; nay more, if possible, he must calculate how much it will cost.

It may be granted, to quote H. v. Kröcher, that the cuirassier-boots with which we equip ourselves will tread on the foreigner's corns ; it is not less certain, however, that willy-nilly we shall also thus hurt certain national corns of our own.

But the policy of Retaliation cannot be discredited solely from the point of view of expense. As the proverb has it : “Death is the only thing we get for nothing.” Provided such a war is likely to end in victory, the bogey of costs need not frighten us.

A tariff-war is on the same footing as a wage-war. The stake in both cases may be high in comparison with the immediate advantage which at the best can be gained; but as a strike pays if the higher wage secured is permanent, so will the utility of a retaliative policy outweigh its expense if a foreign nation is for a long period cured of its commercial hostility.

Finally.—The question whether a retaliative measure will succeed or fail can never be certainly answered beforehand. On the other hand, there need be little scruple with regard to the methods to be employed. As Lexis writes :

“Without regard to side issues, whether protective or financial, those products of a foreign country must be taxed, ‘the restriction of whose export will cause it the greatest inconvenience and loss.’”

Other things being equal, these will be the products of which the foreign country has hitherto sent the *largest quantities* to the home country. The more of any goods it has hitherto sold in the home market, the greater the likelihood that it will suffer, if



retaliative duties appreciably enhance the price to the consumers.

At the same time two things need to be noted.

First, that consumers may treat an advance of price in different ways. They may purchase less of the foreign goods than before—this, in fact, is the design of the measure in question—but it is also possible that they may go on buying as much as ever and compensate themselves by restricting their consumption of some other things. Should the latter result follow, and the home consumers buy as much as ever, the retaliative policy will prove a failure.

The purpose of Retaliation, which is to exercise a pressure that will bring the foe to his senses, can only be attained if consumers buy less than before. Lessened demand in the home country involves for the foreign country a danger both of putting capital and labour in export branches out of employ, and also of the necessity of a reorganisation of its productive industries—a thing which can never be effected without immediate loss.

It is further to be noted, that even if a

diminished demand in the home country result from the retaliation, and the measure therefore run its intended course, the degree to which the pressure will be felt by the foreign country may vary very greatly.

First of all, it depends on whether the foreign country had been sending products specially adapted to the habits of the home country—products for which, put summarily, the latter supplied the only market ; or whether they were products which commanded a world-wide market, which at all events were saleable in a considerable number of countries.

In the former case, retaliative duties produce their maximum of effect, and the probability is as great as possible that the opponent will cry “peccavi.” Then, too, the risk of capital and labour being thrown out of employment will become an actuality, as also the necessity for a reorganisation of production. Because opponents will fear this result, Retaliation that hits such products will most readily force them to give way.

But this *modus procedendi* cannot always be applied. For in many cases the circumstances

are such that country G, from which country A wants a reduction of its tariff, exports to A only goods that have a world-wide market; for example, foods or materials which, if excluded from country A, can be offered in countries B, C, D, that need them as much as A. Such a shifting of markets cannot, of course, be effected in a day, and is always attended with disadvantages; but the danger of capital and labour being thrown out of employment is by no means so great, and there may be no necessity at all for a change of production. What the consumers of country A buy less in consequence of the increased price due to retaliative duties, the consumers of countries B, C, D may buy more. In that the goods of country G are excluded by country A, the latter experiences a shortage; this shortage will be made up by the competitors of country G. But, as a consequence, these competitors will no longer be able to supply the wants of B, C, D to the same extent as before; there will result, consequently, for country G the possibility of selling to B, C, D the goods excluded by

A. The loss of market A can of course never be a matter of indifference to country G; unquestionably, too, the retaliative duties which A imposes on products of G that have a world-wide market may exert a certain pressure on G, but this pressure can never be as great as would be that of retaliative duties on articles for which A is the only market.

- A country which means to retaliate must strike therefore at the chief exports of its opponent, especially at those which have not a world-wide market—if there are such. The method of Retaliation is thus clearly indicated.

It will always be necessary, however, to estimate the cost of adopting this method. But it will be more fitting to treat further on of the injurious, disturbing effects which retaliative duties have on the country which resorts to them.

After these preliminary general considerations I proceed now to subject each of the two variants of the principle of Retaliation to a special critical examination.

CHAPTER I

THE POLICY OF RETALIATIVE OR FIGHTING DUTIES

"RESORT to reprisals," said once a French politician, "is as stupid as the conduct of a child which hits a piece of furniture against which it has knocked itself and thus hurts itself twice instead of only once." Englishmen and Germans of the Manchester School have frequently expressed a similar opinion in opposition to Adam Smith.¹

Criticism like this, however, totally negative in *principle*, as has been urged in the previous pages, is wrong. Whether a manœuvre of fighting duties is justifiable or not, cannot be settled on abstract principles, but only in concrete cases.

¹ Compare, for example, Prince-Smith's absolutely condemnatory judgment of the policy of striking back ("Gesammelte Schriften," vol. ii., p. 300). Chamberlain, in his Glasgow speech, several times appealed to Adam Smith as approving of "Retaliation." If he had only taken more to heart the other economic doctrines of the great Scotchman!

We have seen, further, that in order to be effective, retaliative duties must be levied on articles, the restriction of whose export will *bear most heavily* on the foreign country. If there is any way of arriving at the goal, it is this. There is no sense whatever in hitting out at random in various directions at the same time ; that is, in levying equally high fighting duties alike on all the exports of the bad neighbour. The proper course is to try to hit him as hard as possible in the most easily wounded parts.

It must be remembered, however, that this *most effective* method is also the *most costly*. Restrictions on exports which will be felt most keenly by foreign countries, will also be felt most keenly by the home country. If we have hitherto bought particularly large quantities of certain of our opponent's wares, it was not out of sympathy with him, but because we thought it more profitable to procure *these* wares from *this* country than from any other countries.

If for the sake of Retaliation (Retorsion) we hamper the sale of our opponent's chief exports, we doubtless inflict damage on him. But we have to suffer with him.

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"Every fighting duty," says Adam Smith, "saddles a tax on the entire nation which has imposed it"—a tax as high as the advance in the price of the wares on which the duty is levied. The amount of this tax is the measure of the cost of the tariff-war.

Let me here illustrate this matter of cost by one example. Let it be assumed that negotiations for a new commercial treaty with Russia have failed. Russia now increases its duties on German iron, textile, and other wares, whilst it admits the products of England, Belgium, and other countries at the rates hitherto prevailing. Germany retorts by imposing differential duties on Russian corn, timber, and flax. By this means a wound is inflicted on the industry of the Czar's Empire; for, when Russia sent such large quantities of its productions to the German market, instead of to other nations of Western Europe which would have bought them, its reason was that better terms could be thus secured than would have been secured in England, Belgium, and elsewhere.

But Germany thus also inflicted an economi-

cal injury on its own inhabitants; for though the products in question could have been drawn from other countries—for example, from America, Scandinavia, and Austria-Hungary—it had bought them from Russia because they were to be had cheaper in Russia.

Accordingly the extra amount paid for corn, timber, and flax by the importers in consequence of the fighting duties, is really a duty levied on the German *consumer*.¹

But our *producers* also had to suffer along with the consumers; for as the consumers had to spend *more* for bread, timber, and linen wares than heretofore, they naturally had *less* to spend on other things. The policy of fighting duties affects therefore the entire industrial life of Germany.

In the *first* place, *inland* sales are lessened. A number of branches of the national industry, not directly affected by the higher duties imposed by Russia, are hit in consequence of the retaliative duties imposed by Germany.

¹ For proof that in the long run fighting duties, provided they remain a fair time in force, have to be paid by the home country and not by the foreigner, see the section on "The Policy of Reciprocity."

The iron and textile industries, that is, the branches directly injured, are injured *still more* indirectly, because the purchasing power of German customers is diminished by the increased cost of certain articles of food and raw materials.

Still further, the sales to *foreign* countries are lessened. The price of Russian timber and flax is raised to the German consumer, whereas the English and Belgian trades get them as cheaply as before; nay more, in consequence of the increased import of the goods into these countries they are even cheaper than before. Foreign wood and linen manufactures gain an advantage over those of Germany—an advantage in their own markets as well as in those of the world generally.

Both countries suffer — Russia as well as Germany. To what extent, depends on two things: *first*, whether, at what price and how soon, Germany can procure elsewhere the goods that have been hit by the fighting duties; *secondly*, whether Russia can get rid of them elsewhere.

The conditions for the various articles affected are obviously very different.

As regards wheat, barley, oats, and timber, the mutual dependence of Germany and Russia is by no means so great as in the matter of rye and flax.

The first-mentioned articles, Germany could get from other countries besides Russia ; and Russia could export the same articles to other countries. New markets for wheat and so forth would not, of course, be found *immediately*; and even after they were found both nations would be worse off—Germany would have to pay dearer for wheat, etc.; Russia would have to sell its wheat at a lower price. But fighting duties on these particular articles—articles which have a world-wide market (see p. 31)—would do little injury to Russia, and would be borne by Germany without great pain.

As regards rye and flax, on the contrary, Russia and Germany are much more dependent on each other. Germany draws its supply of flax almost exclusively from Russia. To find it elsewhere within a short period would

scarcely be possible ; at all events, it would take a *much longer time* than wheat, and would cost more when we had got it. Yet after all, this hunger of our linen industry for flax would not put us at the mercy of the Czar.

For, as our linen industry would hunger for Russian flax, so would the Russian flax produced hunger for the market it had found among German linen manufacturers. The great extent of the one was co-determined, nay, indeed chiefly determined, by the extent of the demand for the latter. Were the export of flax to be lessened, extensive agrarian districts of Russia would suffer severely. No doubt, as was already indicated, Russian flax would then be pushed in England, Belgium, and so forth. *In the long run*, however, the German linen industry would have to pay the score for this fighting duty. At the same time, as the linen industry of foreign countries which competes with Germany would not be able to expand *all at once*, Russia would suffer for some time from a fatal plethora of flax. The fighting duty on flax, therefore, though Germany would feel it economically more keenly, would be a

much more effective weapon against Russia than a duty on wheat and the other articles named.

As far as *Rye* is concerned, the position is similar. Germany draws by far its largest supply of that article from Russia. (This is the reason why in 1891 the price of rye rose relatively so much more vigorously than that of wheat.) It would have taken a considerable time to find a substitute for Russian rye,¹

¹ If Germany had excluded Russian rye by high differential duties, it would naturally have been offered in larger quantities than before to Austria-Hungary and Roumania. In this way, rye which had been hitherto kept for consumption at home would have been set free for export to Germany; Russian competition would have compelled the Hungarians and Roumanians to offer their rye in our markets. Germany would thus to some extent have been able to supply its lack; but in all probability, save when harvests were far better than the average, we should have had to pay pretty dearly for it, even if the supply had been adequate.

The statistics of our rye imports during the last decennial seem to me to warrant this inference. Whenever Russia was unable to meet the German demand to the usual extent (as, for example, in 1891-92, and 1897-98), it was not the Danubian States, but America that helped us out of our difficulty (see "Statistisches Jahrbuch des deutschen Reichs," 1901, p. 96).

But the United States cannot be relied on for this purpose. They produce very little rye and for the most part export only quite minute quantities. It was a happy accident that just when Russia sent us less than usual, a prodigal whim of Nature enabled America to step into the gap—in 1891, 1897, 1898, it had the largest crops of rye since 1866 (see the "Statistical Abstract of the United States," 1902, pp. 293, 372).

and supposing it to have been grown more extensively in Austria-Hungary or Roumania or the United States, Germany would probably have had to pay decidedly higher prices there than for the rye previously bought in Russia.

It would not, however, be at all right to conclude from this consideration that we should not venture to put a fighting duty on rye. On the contrary, Russia's situation would be more precarious than our own.

If Germany bought less rye, the English, Belgians, Swiss, Italians, and others would not therefore buy more, not even if Russia offered it at a considerable reduction. Supposing Russia to have had specially abundant harvests, it would either have been left in the lurch with its superfluity, or it would have had to bear part of the German fighting-duty itself. But if the tariff-war were being carried on at a time when Russia's rye crops were bad, the German fighting duty would have to be paid by the German consumers. For all that, the reprisal could not but operate as an urgent recommendation to Russia to make concessions: for it might apprehend that if rye

continued to be dear, a process would be expedited which would prove very disastrous for Russian agriculture — namely, Germany might begin to consume more wheat and less rye.

This one example will suffice to answer the question as to the cost of a fiscal war and its chances, when the country against which Retaliation is brought into play supplies the retaliating country with articles of food and raw materials. What has been advanced relatively to Russia holds good *mutatis mutandis* relatively to Austria - Hungary, Roumania, and the United States of America.¹

That a fiscal war with a manufacturing State would involve somewhat different results is clear enough; but as the question is dealt with further on under the head of "Policy of Reciprocity," it may here be passed over. Inasmuch as fighting duties on manufactured goods or articles of luxury, such as wines, liqueurs, and so forth, also tend to disturb the economics of a nation and cause it expense,

¹ On the policy of Retaliation against America see the chapter on "The Policy of Reciprocity."

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the results may be said to be just the same. No country can carry on a fiscal war with any other country whatever, without doing itself injury.

Under all circumstances this is the necessary accompaniment—it is the price that has to be paid for recovering a foreign market. *If* there is a prospect of success, the bogey of expense need not frighten us, and a policy of Retaliation is justifiable from the point of view of Free-trade.

If, however, the chance of success, which at first there seemed to be, has no actual existence, the fighting-duties manœuvre *must be dropped*. It would, of course, be false tactics to throw one's weapons away at once because one did not succeed at once in forcing one's bad neighbour to yield. Unless he is convinced that we mean business—and this conviction will only be brought home to him if we continue on the war-path for a certain time—he will scarcely come to terms. But *as soon as* it becomes certain that he will remain obstinate, a continuance of the policy of Retaliation ceases to be justifiable. The

French politician's criticism quoted at the beginning of this section would then be just : it would certainly be loss without gain—useless loss—for the national industry and economy. ✓

As soon as the prospect of success vanishes, the cry must be "down with the weapons." Those who oppose every form of Retaliation whatever are quite right when they maintain that the longer fighting duties are levied fruitlessly, the harder is it to abolish them ; and when they further lay stress on the danger that fighting duties, which were designed to be only a *temporary* expedient for the recovery of a foreign market for the national exports, may become *permanent* protective duties, that is, means of excluding foreign imports in opposition to the true interest of the nation.

The risk of being unable to repeal fighting duties becomes greater the longer they are in force. This is the case, at all events, when it is a question of duties on foreign goods which the home country is also able to produce.

Let it be assumed, that Russia did not at

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once pay any heed to the reprisals of Germany ; that only after several years, during which, perhaps, it had exceptionally rich crops of rye that pressed for sale, did it show a disposition to give way, that is, to revoke its industrial duties on condition that Germany revoked its fighting duties on rye, etc. : Will Germany be able to conclude peace on this basis, even if its original intention had not been to treat the duties on rye, etc., as protective ?

The possibility is, in any case, *then* less than if Russia had made advances after a few months.

For, after some years, Germany may possibly have increased its own production of rye with a view to filling the gap caused by the shortage of the Russian rye imports. In a case of this kind, the German agriculturists will have a right to complain of a revocation of the fighting duties as a grave injustice to them. "By making good the deficiency," they would plead, "we have deserved well of the Fatherland. We have done what it was necessary for us to do in view of the policy of Retaliation that was adopted in the interest of our export

trade; we have changed our business; we have invested capital in the new branch—Are we to be punished for this?”

Certainly not. Even the most convinced Free-trader would be compelled to allow that the opposition of the producers of rye would be justifiable.¹

The lesson taught by this example, worded more generally, would run: “Retaliation should only be resorted to when there is a prospect of its accomplishing its purpose within so short a period² that those branches of the national industry which profit by the fighting duties,

¹ Thorough-going opponent of corn-laws as was Ricardo, he nevertheless recognised that the British farmers who had gone in for an expanded production of corn during the Napoleonic Wars had a right to claim protection for a certain time after the competition of foreign corn had become possible again, in consequence of the peace. Compare Ricardo, “Prinzipien der politischen Oekonomie und Besteuerung,” p. 236 (Translation by Baumstark).

² “A policy of reprisals,” wrote the *Economist* recently, “demands from the minister who applies it the most careful consideration of the probability that the duty he proposes to levy will have the desired effect of leading a foreign Government to take off some duty that they now levy on English goods. And this probability *must not be too remote*: because if there is time for the corresponding English industry to become prosperous, it will be exceedingly difficult to revoke the fighting duty.”

shall not, within the same period, have undergone material expansion; but that there has only been a considerable shrinkage in the importation of the productions of foreign industry on which fighting duties are levied."

In rejecting fighting duties, unconditional Free-traders on the other side of the Channel maintain that the difference between Retaliation (Retorsion) and Protection is only one of degree—the difference, for example, between seed and flower, between child and man; but they are mistaken. Still, they are right in so far as that a policy of Retaliation readily becomes a slope down which a Free-trade country may glide into a system of Protection.¹

It is also true that a policy of Retaliation may serve as a mask to conceal what its advocates are really seeking to further, namely, a policy of Protection.

In 1877-78 the Free-traders of Germany opposed Bismarck, and were quite warranted

¹ The *Economist*, which always lays great stress on the difference of principle between Retaliation and Protection, uses the words, "the slippery slope which leads to Protection at the bottom" (1903, p. 1840).

in so doing, because they feared that a halt could not be made at the fighting duties which he first advocated, and which in my judgment were all he aimed at. And just as the then ever-increasing German Protectionist party regarded them as merely the first steps which they believed bound to end in Protection, so have the English Free-traders now every reason for opposing Balfour, for they cannot but apprehend that the road at whose beginning stands rupture with "one-sided Free-trade" will end in "all-sided Protection."

If this is the position of matters, if such distrust is obligatory, obviously, as a matter of course, the policy of Retaliation must needs be combated by Free-traders. A different attitude on their part could only be justified if they were quite certain that the leading Minister's intention was to use fighting duties exclusively for the promotion of foreign trade; and that there was no doubt about his resisting-power over against the hankerings of Protectionists to use them for a different purpose.

CHAPTER II

THE POLICY OF RECIPROCITY

THE representatives of the principle of Reciprocity have the same aims as those of the principle of Retaliation. Between their respective programmes the only difference is that whilst the former think to attain their object—namely, the increase of the national export trade by the construction of a *permanent* fiscal retaliative apparatus¹—the latter believe that

¹ Either by the construction of *one* general tariff with higher duties, and alongside of it *one* conventional tariff with lower duties, which apply to *all* nations that have granted certain concessions deemed adequate; or by the construction of a *number* of tariffs, each of which is to be applied to a *single* people and contains higher or lower duties, according as the national export trade is treated by this people “worse” or “better” (see above, p. 12).

How the English advocates of Reciprocity—formerly Lord Salisbury, now Balfour—would construct their retaliative apparatus is thus far not clear. Their idea, as it would seem, is to have a number of tariffs imposing duties, not on *all* the productions of the foreign nations to which they would be applied, but only on *certain* articles—the most important—

the end can only be attained by the *occasional* imposition of retaliative duties — theirs is a policy of *now and then*.

The adoption of Retaliation as the *permanent* basis of a fiscal system involves obviously much further reaching consequences than the decision from case to case, or time to time, whether anything can be gained by reprisals. For this reason, a Free-trader may fall in more readily with the latter variant of Retaliation than with the former, though he has no right once for all to condemn the former.

The line of argument adopted in favour of a policy of Reciprocity is undoubtedly open to question. Very briefly summarised it runs, that a nation which pays homage to the principle of unconditional Free-trade deprives itself of the possibility of pushing Protectionist nations into the path of a more liberal fiscal policy, and of thus securing for itself and for these said nations a fuller measure of the blessing of a more complete division of labour ; presumably those which are said to be sold "under price." (The reference is to wares which, because their export from the country producing them is supported by bounties, can be offered in England at prices that under given circumstances are below the cost of production.

whereas, if it insist on Reciprocity as the condition of conceding Free-trade, this possibility exists.

In the celebrated speech delivered by Lord Salisbury at Hastings 19th May 1892¹ he remarked :

Every nation is trying how it can, by agreement with its neighbour, get the greatest possible protection for its own industries, and at the same time the greatest possible access to the markets of its neighbours. This kind of negotiation is continually going on. It has been going on for the last year and a half with great activity. I want to point out to you that what I observe is that while A is very anxious to get a favour of B, and B is anxious to get a favour of C, nobody cares two straws about getting the commercial favour of Great Britain (cheers). What is the reason of that? It is that in this great battle Great Britain has deliberately stripped herself of the armour and

¹ A speech, I believe, delivered under the impression made by the success achieved by Caprivi, when he deviated from the principle of unconditional, universal, and uniform protective duties which had dominated German policy since 1879, and adopted that of Free-trade, at all events that of *freer* trade, based on Reciprocity.

weapons by which the battle has to be fought. You cannot do business in this world of evil and suffering on those views. If you go to market you must bring money with you; if you fight you must fight with the weapons with which those you have to contend against are fighting. It is not easy for you to say, "I am a Quaker; I do not fight at all; I have no weapon" and to expect that people will pay the same regard to you, and be as anxious to obtain your good-will and to consult your interests as they will be of the people who have retained their armour and still hold their weapons. The weapon with which they all fight is admission to their own markets. . . . But we begin by saying, "We will levy no duties on anybody. . . . It may be noble but it isn't business (loud cheers). The opinion of this country as stated by its authorised exponents, has been opposed to what is called a retaliatory policy. (A voice—"No, no"). Oh; but it has. We, as the Government of the country at this time have laid it down as a strict rule from which there is no departure. . . . But . . . I would impress upon you that if

you intend, in the conflict of commercial treaties, to hold your own, you must be prepared, if need be, to inflict upon the nations which injure you, the penalty which is in your hands, that of refusing them access to your markets. (Loud and prolonged cheers, and a voice, 'Common sense at last!').

This line of argument which the present Premier of the Island Kingdom (Balfour) has appropriated to himself, and which is often followed amongst us, was at the time contemptuously rebutted by the Manchester School. The *Daily Chronicle* characterised it as "superficial talk." There are still also Free-traders who will discuss the question; who maintain that such Reciprocity is distinguishable only in name from Protection. But they are wrong. The goal of the one is the opposite of the goal of the other. It will not do to deny that Reciprocity *may* serve as a weapon in the defence of the principle of Free - trade.¹ Absolutely to

¹ "Mr Balfour advocates Retaliation as a means of securing Free-trade" (*Economist*, 1903, p. 2140).

negative the principle of Reciprocity is as inadmissible as absolutely to negative that of Retaliation.

What needs, however, to be insisted on in both cases is, *first of all*, that the most careful attention be given to the element of *risk*—the possibility, namely, of the actual effect being the exact contrary of that which the policy of Reciprocity aims at. For the construction of a permanent apparatus of fighting duties may *not* make more pliant the peoples whose improvement is intended to be promoted by the punishment inflicted, but may only excite them to levy still higher duties for the sake of Retaliation. Manœuvres of fighting duties also involve this risk; but if Retaliation is reduced to a system the risk is, of course, greater.

To construct an entirely new general tariff, or to heighten an already existing tariff as a “weapon of defence,” that is, to inaugurate a retaliative procedure which has no definite object, may embitter the temper of many nations at the same time, and may thus become an occasion for their arming themselves in a

similar way.¹ Whereas, if in retaliating we restrict our fighting duties to one particular people, we risk only a *localised* tariff-war. This is one of the considerations which, as was already remarked, will dispose a Free-trader to be more friendly towards Retaliation than towards Reciprocity.

The *second* requirement is that the question of cost should be most carefully considered. The significance of this point was illustrated in the last section by a single example; I propose now to deal with it in a more general way.

Whether the construction of a permanent apparatus of Retaliation will prove as useful as is expected, must always be uncertain; that it will involve costs is absolutely certain. The costs will fall on the national consumers; for it is they who, *for a continuance*, have to pay the Reciprocity duties, under the form of a corresponding increase in the price of the foreign wares on which such duties are levied.

Just as at the end of the 'seventies the

¹ We Germans did not attach enough importance to this risk when we raised our general tariff in 1902. I shall return to this point.

position that foreigners would pay the duties was very zealously defended by Prince Bismarck, with a view to rebutting the objection drawn from the rise in the price, particularly of food, due to agrarian duties, so at the present day the theory that to levy Reciprocity duties means "to tax the foreigner" is frequently advanced by British Retaliators.

If this were really the case, did the duties really fall on foreign countries, that is, were the foreign goods sold to England cheaper by the whole, or at all events by part of the amount of the duties levied on them, the prospect of success would indeed be very great! The punishment inflicted would then be very keenly felt: "the fiscal inducements"¹ would be very seductive!

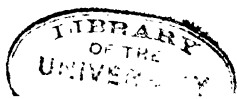
But that is by no means the case: for a certain time after such duties have been imposed, and as long as the country which adopts Reciprocity is the only market open

¹ I would remind the reader of Balfour's remark, previously quoted, that "foreign countries cannot be overawed by Free-trade doctrines," but only by "fiscal inducements which they thoroughly understand."

to its goods, the foreign country will have to pay the duties. This, however, can only be expected to last, if it is a question of articles, the offer to supply which is an absolute monopoly of the foreign country. As Godard pertinently remarks: "Since, as the utmost price has already been reached, the vendor (the monopolist-seller) must lower it by the amount of the duty to effect the sale."¹ Such a case of monopoly, however, is exceedingly rare.

If, on the other hand, it were a question of articles which are subject to competition, the price of which, therefore, only covers the cost of production plus the customary profit, the foreign country will *not permanently* bear the duties. It will be unable for any length of time to sell them below the current rates, that is, below the cost prices to which competition had reduced them. And unless other markets open in which the wares that had hitherto been exported to the Reciprocity country can be sold at the usual necessary rates, production will shrink, less quantities of the articles in question will be offered, and

¹ *Westminster Review*, Dec. 1903, pp. 625, etc.



the consumers of the Reciprocity country will be compelled to pay the duties which they think they are levying on the foreigner.

If it is true, then, that, for a permanence, Reciprocity-duties have to be paid by the national, *i.e.*, home consumers, what is this else than that the punishment intended for foreign countries *falls also on one's fellow-citizens*. There is, unfortunately, no way out of it. It matters not whether the countries against which we retaliate are manufacturing states or states producing raw materials: whether the fighting duties are levied on fabrics, or food, or raw material, or machines one result invariably follows—namely, increase of price, and in its train a revolution in the use and production of goods, which cannot but injuriously and disturbingly affect the economic life of the home country. This result is, strictly speaking, self-evident. But it is, nevertheless, not clear to many, and sometimes it is expressly disputed. For this reason it is necessary here to adduce evidence in its support. Let it be once realised that the policy of Reciprocity, *so long as it has*

not accomplished its object, must, under all circumstances, injuriously affect the national economics, and the light in which it appears will be much less attractive than if the delusion is entertained that the "weapon of defence" may be handled without producing any such effect.

Let us *first* investigate the influence which duties will have on *finished* goods.

After Lord Salisbury, in his speech at Hastings, had remarked with emphasis that for England to levy duties on food and raw materials would be to injure itself, and that for this reason Retaliation should be confined to products which we *do not much need*, he went on to say that there is a host of articles, such as wine, liqueurs, silks, lace, gloves, etc., the consumption of which might be restricted without any ado by means of higher duties if only access could thus be secured to other markets.

Other representatives of the principle of Reciprocity also advance the theory that whilst duties on foods and raw materials are open to doubt, there can be no objection to levy-

ing them on articles of luxury such as Lord Salisbury enumerated, and other "dispensable" finished goods.

In reality there is *no* species of foreign wares whose consumption can be "restricted without any ado."

Suppose that people A levies retaliative duties on certain articles of luxury, of which people B has hitherto supplied considerable quantities, and that they are thus made dearer to the national consumers.

1. The *first* possibility is that notwithstanding the increase of price the consumption *does not diminish*. Some articles of luxury, as, for example, champagne, can only be got in the quality desired by a rich minority from one country, that is, from France. For this reason, it is quite possible that the rich minority referred to may go on buying them from this particular country, and that it will buy neither a bottle of wine nor a yard of lace less than before.

In this case, the retaliative measure ends in smoke. If B's market in A is not lessened, he has no reason for making concessions; but

further, the blow which was meant for B recoils on A, for, as the consumers in A pay more for the articles of luxury supplied by B, they have less money to spend on national products. The sole effect of the retaliation is, therefore, to deflect the national trade from its normal channels.

2. The *second* possibility is that in consequence of the advanced price the consumption *declines*. The heavier the duties levied by A on the articles of luxury supplied by B, the more probable is it that the demand for them will diminish; nay, more, it may entirely cease. In this case, the blow falls as was intended. For B it is a serious matter to lose A's market, either in part or whole; at all events, if the articles hitherto exported to A have been got up to meet A's special demand, and have not a world-wide market, but only the market of A.¹ Under such circumstances B may be induced to make concessions. Then also A has played a good game with his tariff-diversion. But if B is obstinate, A "inflicts an injury on himself,"

¹ See p. 12.

notwithstanding that wines, silks, laces, and the like are classed among superfluities.

Let us suppose that England attempts to visit France with a penalty by levying on its wines much higher duties than heretofore. If the English consumers limit their consumption to the extent of not spending a larger proportion of their income on them than before, their ability to buy national products will not be affected. Should they cease altogether from buying champagne, Bordeaux and Burgundy wines, and Lyons silks, they may even have more money to spend on national products.

In this case (diminution of imports caused by higher duties), as distinguished from the other (undiminished imports notwithstanding higher duties), no deflection is produced in the industries of the country which inflicts the penalty. The only disadvantage resulting to England from its retaliative measure would seem then to be that a number of consumers of the Upper Ten are obliged to go without certain things, the lack of which will not harm either them or the community at

large. At first sight, one may fancy that the disadvantage must affect the French market almost entirely, because of its having lost the English market, either in part or in whole.

But this opinion would be a mistaken one. Whoever entertains it (as Lord Salisbury evidently did), overlooks what those who levy duties, whether under the title of Protection or Retaliation, almost always do overlook, namely, that a country can diminish its imports from other countries only on condition that it diminish its own exports.

If England, by its retaliative measures, bring about a diminution of French exports to itself, France's ability to purchase foreign wares, that is, its power to import, will be diminished¹ by the amount of the new duties levied. For, if England buys less champagne other countries do not, on that account, buy more. France is accordingly compelled to restrict its production for this and other exports until it has found new markets; on

¹ France buys from foreign countries not with cash or money but with the goods which she sells them.

this account, it becomes a worse customer in the world-wide markets. This fact will make itself felt in England, either directly or indirectly. England also will be compelled to restrict its production for export, and will therefore have to find new openings for capital and labour which had previously been employed in certain export branches.

It is, of course, possible that although France sells less *to* England, it may continue to buy as much as heretofore *from* England, for example, coal, machines, ships, textile fabrics, and so forth. Nor do England's exports to France need to suffer; France's lessened ability to buy foreign goods need not *directly* affect British exports.

But it will under all circumstances affect them *indirectly*. If France goes on buying as much as ever from England, she must needs buy less from other countries, with the result that *these countries* are no longer in a position to buy as much as they used to do from England. British exports to these same countries will thus necessarily be diminished. No matter how the restriction in the world's

commerce through the exclusion of certain French articles of luxury from the English market may work itself out, the blow aimed by England at French exports is certain to recoil on her own export trade: England therefore will thus "do harm to herself."

It is conceivable, of course, that France might immediately find a new market for the articles of luxury which England no longer buys—perhaps one that is as great and profitable, that is, pays as high prices. In that case, France's ability to purchase foreign goods will not be diminished; English exports will not fall, and no disturbance will be caused to English industries.

Certainly, this is conceivable. But if such were the position, that is, put more generally, if the wares of B on which A levies retaliative duties have a world-wide market, then the Retaliation serves no purpose. England's retaliative measure can have a prospect of success only on condition that the partial or entire loss of the English market means for France a diminution in its exports of wine, etc., *as a whole*. But, as was previously

explained, this success can be purchased only at the price of a fall in English exports to some country or other. Because Lord Salisbury failed to see this effect he drew the false inference that the consumption, at all events, of articles of luxury, might be "restricted without any ado."

Whether the weapon be directed against articles of luxury or against finished goods of another kind—say, for example, iron, textile, chemical goods which satisfy so-called necessities of existence—matters not at all. Under all circumstances, if the opponent do not allow himself to be intimidated, an injury must be done to home industries. The exclusion of foreign products from the home market involves the exclusion of certain national products from the foreign markets in which they formerly found a sale. The weapon cuts both ways.

How is it, then, with retaliative duties on *articles of food*?

In this case too it is possible that notwithstanding their enhanced price the *consumption may not shrink*. If A levies duties on

provisions which could only be bought at all from B, or which at all events B alone could supply of the quality suited to the ingrained habits of its population, the consumption will be unaffected; and the weapon fails to wound the opponent. But the home industries experience an unpleasant disturbance.¹

The higher, however, the duties levied by A on such articles of food from B, and the longer the increased price lasts, the more likely is the consumption to *diminish*—shrink or cease entirely. It is out of the power of the masses for a permanence to put up with a rise in the price of provisions as quietly as the rich minority can treat a rise in the price of luxuries. Under the pressure of higher prices habits of consumption will therefore change; the people will gradually get out of the way of using B's exports and betake themselves to substitutes.

If B loses A's market, either partly or wholly, an injury is done to him. There is

¹ See the remarks on the case in which the consumption of articles of luxury is not diminished, p. 66.

then a prospect that B will agree to the tariff-reductions wanted by A. But if B does not give way, A has injured himself; for as in the case of articles of luxury, so in that of food (p. 75), A can lower its import of provisions only on condition that its own exports also sink. This is at all events true when it is a question of provisions which B has produced specially for A, which have no sale except to A, which do not command a world-wide market. If in consequence of A buying less from B, B has proportionally to diminish his export of provisions, B's capability of buying foreign wares is also proportionally diminished: a restriction of the commerce of the world begins, which directly or indirectly causes A's export trade to fall. In this case, the weapon cuts two ways.

Two things have thus far been taken for granted: *first*, that A buys the provisions in question exclusively from B; and, *secondly*, that B can only sell them to A. These assumptions, however, are not correct as regards certain classes of provisions which play the chief rôle in the housekeeping of civilised nations—not,

for example, as regards corn for bread (at all events wheat). Of these there is no such monopoly either as to supply or demand. The circumstances are such that the weapon, namely, the imposition of retaliative duties on provisions, would not inflict a serious wound *on any one*. Neither the country against which the blow is aimed, nor the country that employs the weapon, would be *materially* harmed.

Suppose now that the German Empire were to put an end to the relationship of most favoured nation treatment between itself and the United States of America ; suppose that against this country, which "treats our industrial exports so badly," it were to put into force the higher duties of its general tariff for bread-corn, with a view to impressing the Yankees with the wisdom of treating us better ; suppose, in a word, that it do just what has been already so often demanded by our Retaliators, in alliance with our Protectionists.

The result would undoubtedly be that American bread-stuffs would be thrust aside by those which come from Russia, Hungary, Roumania, and Argentine. But the loss, even

though complete, of the German market would not trouble the Yankees much. It is true, indeed, they would be obliged at once to find a substitute. Other countries which had hitherto been supplied chiefly by Russia and so forth, whose requirements could not be met in consequence of the diversion of Russia's products to Germany, would be compelled to make up their deficiency in America.

Some disadvantage to Germany, as well as to the United States, this displacement of the traffic in bread-stuffs would of course cause : Germany would have to pay somewhat higher prices ; the United States would receive somewhat lower prices ; but it could not make much difference to either. No noticeable transformation would take place in the life of either the German or the American people.

Attention was previously drawn to the fact that if England were to import fewer French articles of luxury than hitherto, a diminution of France's ability to buy foreign goods would follow, the direct or indirect effect of which must necessarily be a fall in English exports. An analogous effect would not be produced

in the case under consideration. America's ability to buy foreign goods, that is, the amount of its imports, would *not* be lessened because Germany bought less American wheat, etc., than heretofore; for America would export all the more to some other countries. For this reason, there would be no fall in German exports; no German products would be driven out of their customary markets. Neither to itself nor to the United States¹ would Germany do special harm by such a retaliative measure.

¹ Lord Salisbury was mistaken, as we saw above, in his opinion that the consumption of foreign articles of luxury might be easily diminished. He was wrong too when he warned emphatically against retaliative duties on food. After praising the principle of Retaliation *in the abstract*, he went on to say: There is, however, one difficulty. . . . The nation of which we have most to complain cannot be excluded without hurting ourselves, namely, the United States; but they supply us with food-stuffs: we cannot exclude these without hurting ourselves. England must therefore content itself with levying retaliative duties on things which are not such necessities.

Our German Retaliation politicians, who are so fond of quoting his epigram about "Quakerism" and of using it in particular to sting the peaceful West-Europeans into revenging themselves on the "horrid" Yankees by means of retaliative duties on articles of food, do not "play fair when they pass over in silence" his express dissuasion from a tariff-war of this kind against the United States.

At the same time he was mistaken in his warning. England would do itself very little harm by levying differential duties on

In so far, therefore, it might have been resorted to without much hesitation. But the chance of its having the desired effect would also have been very slight: and it was pretty sure to have another effect. America would have paid Germany back in its own coin; it would have replied to the differential duties on its articles of food with differential duties on German manufactures.

I have shown in the first section that Germany would have had a better prospect of success if it had operated in a similar manner against Russia. What was said there about fighting duties proper would hold good if Germany levied merely the higher duties of its general tariff on Russia's agrarian products. Russia might indeed, like America, have sought out other markets for its wheat, oats, and barley. By differential duties on articles of food like those which command a world-wide market, Germany could have done its opponent but

articles of food solely *from America*. England does indeed need bread-corn, but it is not absolutely dependent on American corn. Retaliation against America is unadvisable, not because it would cut both ways, but because it would irritate without sensibly injuring.

little harm; more, however, to Russia than it could have done to America. Russia has a much greater interest than America precisely in the German market: for whilst America has other markets as near or relatively nearer than ours, Germany, being at Russia's very doors, is the natural market for the sale of its superfluous agricultural produce. Above all, however, there is the consideration that a differential duty on Russian rye would be severely felt by the Czar's Empire (see p. 48).

A *further point* must here be briefly discussed. If, as was above shown, retaliative measures adopted by means of duties on food against *single* nations have for the most part no effect—for what was just now advanced with regard to America applies equally to Canada, Argentine, Australia, India, Roumania—it still remains to enquire whether a *universal* heightening of Germany's tariff for articles of food would prove a more efficient "weapon."

Whilst a differential treatment of American or Canadian, etc., bread-corn would involve only a *disarrangement* of our imports, and whilst the competition of foreign bread-corn

in the German market would by that means be only slightly weakened—that is, otherwise put, an increase in the German production of bread-corn could scarcely be expected—on the contrary, if our tariff on bread - stuffs were heightened against all nations, that is, universally, a *diminution* of import would result, at all events for a certain time;¹ that is, German production of bread-corn would expand. Would not, then, the fear of the shrinkage of the German demand for bread-corn exercise a pressure on the food-supplying States in general? Would it not make them all—or at all events some of them—more inclined to grant us certain concessions?

The question is one well worth considering. It can scarcely be denied that this method would have a *better chance of success* than that of levying differential duties on the bread-corn of *single* food-supplying States.

It is certain, however, that this latter method is open, on the other hand, to *stronger*

¹ For proof that in the long run a rise of prices of agricultural rents and of land values in Germany would bring imports up to their former higher level, see my work, "Sozialpolitik und Handelspolitik," p. 55.

objections than the former. If the intended effect is not quickly produced ; if the fear of losing the German market did not speedily elicit concessions ; if, on the contrary, Germany's higher food-stuffs tariff remained for a considerable time in force ; and if in consequence an expansion of the production of bread-corn in Germany were actually the result—if, in other words, the retaliative measure had a Protectionist effect—then Germany would injure itself by the latter method more than by the former. For in this case, a much more thorough transformation would be brought about in the life and circumstances of the people.

The quantity of capital and labour, it must be remembered, is, after all, always limited. A larger production of bread-corn is possible only on condition that there is a less production of some other things—a *plus* at one point involves a *minus* somewhere else. This *minus necessarily* makes its appearance in certain export branches. If less corn is bought *from* foreign countries, fewer manufactured articles are sold *to* foreign countries.¹

¹ See above, p. 70.

The punishment intended for the food-supplying States falls on our own consumers, who are now put on short allowance, as also on our producers, whose sales are reduced at home in consequence of the higher bread prices; and to foreign countries because of their diminished ability to buy.

Representatives of the principle of Protection may accept this result of a general rise of the food tariff with composure; but those who hold the principle of Retaliation will be compelled to consider it most carefully. For if the inland production of bread-corn did actually expand, it is very questionable whether the retaliative duties on bread-corn could retain their character as such; it is questionable whether they can again be touched if the food-supplying States should, at a later period, show an inclination to lower their duties on manufactures.¹

Finally, what is to be said with regard to retaliative duties on *raw materials*?

Some sorts—for example, coal, iron, timber—are produced in nearly the same quality in quite a number of countries. What was said

¹ See p. 51.

regarding retaliative duties on wheat and so forth, applies, of course, equally to raw materials of this kind. The weapon would wound *no one* seriously. Were Germany, for example, to levy the higher duties of its general tariff on Russian timber, neither Russia nor Germany would be materially harmed. Retaliation of this kind would deserve to be characterised in the somewhat too general words recently used by an English Free-trader, as the stirring up of a "perfectly purposeless war."

Certain materials — for example, copper, cotton, flax, jute—are for the most part, at all events just now, procured only from one country. They might, perhaps, be produced elsewhere, but it would be after a considerable interval and at much greater cost. Clearly, then, retaliative duties on such materials would prove to be *two-edged* weapons.

If Germany, which is one of the large buyers of American copper and cotton, were to undertake to punish the United States by means of differential duties on these articles,¹ American

¹ In the tariff commission of the German Imperial Diet (1902) the question of levying duty on copper, by way of punishment for the United States, was actually raised.

industries would suffer far more than by a similar treatment of their wheat, oats, and maize.

The American offer of copper and cotton has hitherto been regulated by Germany's demand ; because Germany took a definite quantity, the States grew that quantity more than they would otherwise have produced. Now, if the German demand were to abate in consequence of retaliative duties, the electrical, and some branches of textile industry in Germany, would be placed in a precarious situation ; though the American production of the raw material would be not less affected.

America would accordingly endeavour to dispose of the copper and cotton, no longer bought by Germany, to other nations ; nay, more, it not only would actually, but would be compelled to, offer them at lower prices than heretofore, in order to tempt these buyers to buy more. But the industries of these nations could not expand to the necessary extent in a day. If, therefore, Germany's consumption were to shrink considerably, there would be for some time a

plethora of cotton and copper in the United States — the owners of mines and cotton-planters would be losers, and capital and labour would go out of employment. This would be specially the case were Germany to introduce its retaliative tariff at a time when there was a tendency to over-production of these materials across the Atlantic; or at a time when, for some reason or other, the industries depending on copper and cotton in other countries of Western Europe, which are large buyers of these articles, were on the decline, whilst in Germany they were flourishing. It would then, in particular, be quite conceivable that Germany, though compelled to buy the great mass of the copper and cotton which it needed from the States, and though on that account in a sense at their mercy, might still be able to enforce concessions by means of Retaliation. But even if the copper and cotton markets were in a normal condition, it is by no means quite improbable that the copper and cotton magnates might bring their influence to bear on Congress for the purpose of inducing it to draw the tariff bow

a little less tightly against certain imports from Germany.

Lord Salisbury said : " Retaliation is rational if by its means we can obtain freer access to other markets." That holds good, not only of duties on luxuries and other finished goods, but also of duties on raw materials ; the condition in question may be fulfilled both in the one case and the other. A shrinkage in the disposal of copper and cotton to Germany would be as fatal to the American producers of these articles as a partial or total loss of the English markets, for which they could not at once, or even at all, find a full substitute, would be to the French producers of wine, silk, and lace. As to our market—what profit it brought, and what quantity of the wares in question it absorbed, they know well enough ; but when and to what extent they could find other openings is quite unknown.

For the reasons adduced the punishment inflicted *may* attain its end. But if not—which is equally possible—what then ?

Germany will then have played a disastrous game. *In the long run*, if America did not

yield, there would necessarily be an expansion of the industries which work up copper and cotton in the countries that compete with Germany. England, for example, would supply the markets of the world with copper and cotton articles which had hitherto been supplied by Germany; nay more, owing to the lower price of materials it would more easily than heretofore find an entrance with such manufactures to the German market. If Germany's resort to such retaliative measures against the States were futile, it would ere long find itself face to face with the question, whether it must not follow up the *retaliative* duties against those American materials with *protective* duties against English and other copper and cotton manufactured goods. Such a result would suit our Protectionists very well. But, regarded from the point of view of a retaliative policy, it would be an evil to which, so far as I can see, our Retaliators are totally blind. Lord Salisbury was wrong in warning against retaliative duties on food-stuffs; he was quite right, on the contrary, when he warned against retaliative duties on raw materials.

If the opponent against whom this weapon is used does not knuckle under, the country which has used it may have done itself exceeding harm—it may have committed “industrial suicide.” This weapon ought only to be employed when it is ten to one that the blow will take effect as desired—that, too, speedily !

With the exception of a few Ignoramuses and Hotspurs no one in Germany seriously proposes that we should risk a policy of this kind *alone*, against America : but there are many who would like Western Europe to take up the cudgels *viribus unitis* against the American tariff.

I shall not here explain why I regard the idea of a Central - European tariff - league directed against the United States as Utopian, but assume for the time being that the project is set on foot—realised too on the broadest basis ; that England itself has joined it,¹ and that thus an alliance of all the large purchasers

¹ For my part I am unable to imagine an anti - American tariff - league without England. The only result of a league without England would be that British industrial exports would increase at the expense of those of the Continent.

of American materials has been formed, which lays an embargo on the trade of the United States with the Continent.

As a matter of course, a stronger impression would be made on America by such a combined advance of nearly all, or at any rate of by far the most important, of its customers, than by the isolated action of a single country. Yet even in this case, success would be by no means certain. On the contrary, after the Yankee's head had been swollen, as it would have been, by the talk about the "scarcely-to-be-over-estimated" danger of American industrial competition, there would be less likelihood of his giving way than ever.

The Protectionists in the Capitol at Washington would mock at the Old Continent for plunging into an adventure which, *in the long run*, could not but turn to its disadvantage and to the advantage of the New Continent. They would say, "Are they incapable over yonder of seeing that in consequence of the higher prices which European industry has to pay for American materials, American industry can now compete with them more easily in

Central and South America, in Asia, Africa, and Australia? They have let themselves be terribly frightened by the increase in the export of our manufactures between 1897 and 1900, and now they go to work as if they wanted to help us to conquer new territories. *To conquer them by to-morrow*, to flood them by to-morrow with such quantities of our manufactures as to compensate for the ebb in the export of our raw materials to Europe—that is, of course, impossible. Gradually, however, we shall get firmer and firmer footing in non-European markets, and shall more and more supply them with the manufactures which they have hitherto received from England, Germany, and so forth. That our sales in these markets will materially increase, is absolutely certain. Central and South America are in need of foreign manufactures: if they procure less from the industrial States of the Old Continent, they will take all the more from the United States, which, into the bargain, is their nearest neighbour. Therefore, go ahead.”

But all the extra-European markets taken

together, are they not very far from being as able to absorb as much as the markets of the industrial States of the Old Continent were able to absorb? The materials converted into finished articles, which America might be able to sell there, would they not be very much less in quantity than those which it had previously sold to the Old Continent? And would not the commercial life of America, in consequence, experience a great disturbance, and mine-owners and cotton-planters great losses?

As long as the extra-European customers were not numerous enough fully to absorb so much more American manufactures as quite to compensate for the diminution in European sales—which could not happen for a very long time—the production of raw materials in the United States would be harassed by an excess of capital and labour.

Yet the Protectionist party there would manage to prevent the States from making concessions to the tariff-league, under the pressure of the calamity thus resulting. It would paint the distressed condition of

European industry, etc., with the most flaring colours; it would maintain further that European industries are not only less capable of competing in extra-European markets, but also, in consequence of the exclusion of American raw materials, for which at present no substitute can be found, sell less in Europe itself; and, finally, it would prophesy a copper and cotton famine. What a cotton famine means, the Old Continent learnt in 1862-64: what a copper famine means, people would then learn, especially in Germany, with its electrical industries, which have quite recently shot up so vigorously. An overplus of capital and labour would ensue in the countries of the tariff-league, as inconvenient to their industry as would the similar overplus referred to be to the producers of raw material in the United States. A sudden rise in the "export of men" might also then be expected.

Both, in fact, the Old as well as the New Continent, would do themselves harm, great harm, if the former resorted to such retaliative measures, and the latter obstinately refused

to make concessions. Which side would be injured most could not be at all decided in general. A good deal would depend on the actual circumstances under which the tariff-war happened to be carried on.¹

But, whatever the concrete situation might be, two things would certainly throw their weight into the scale, to the disadvantage of the Old Continent.

First, that a far greater amount of capital is *fast tied up* in the manufacturing industry of Europe than is tied up in the American production of raw materials. And *further*, that among the countries which would form the anti-American tariff-league there would be two which are not only the greatest buyers of American raw materials, but which also do the largest part of the *carrying trade* between America and Europe. For the former of these two reasons, it is obvious that they must have the greatest interest in a reduction of America's duties on manufactured articles. A tariff-war with the States would inflict a deadly blow on English

¹ See p. 83.

and German shipping ; whereas to America, whose ocean-carrying trade is very limited, it might be a matter of indifference. Over yonder, they would know exactly what wounds England and Germany were inflicting on one of the most flourishing branches of their trade by the league to exclude American goods from the Continent ; they would know also that at the same time, a number of other industries were being indirectly injured—above all, the iron industry.

In view of these two considerations, a sober judgment will arrive at the conclusion that, however severely the United States might suffer, the position of the tariff-league would be the weaker ; that for this reason America would not give way, but would expect its opponent soon to revoke the retaliative measure—and this expectation would turn out to have been just.¹

¹ Thus far I have only considered the question whether a tariff-league operating with retaliative duties on *raw materials*, that is, on the most important of the materials exported by America, namely, copper and cotton, would be certain of success.

Our anti-Americans, however, think primarily of a Continental embargo on the *food-stuffs* exported by the United

During the last few years, particularly 1897 - 1900, the Germans have frequently demanded that their country should defend itself against the commercial hostility of the United States by means of duties on *machines*.

It is advisable, therefore, to say a few words here relatively to this demand. It is necessary, first of all emphatically to remark, that the import of American machines to Germany is by no means large, and by no means either steadily or rapidly growing. A notion that this was the case arose in 1897-1900, which has had a wide vogue; but it is mistaken. At the date named facts seemed to warrant it, but though later events gave it the lie, it keeps being repeated down to the present day.

The great mass of the machines sent us by States. That this would result in nothing but a purposeless war will be sufficiently clear from what was advanced before regarding retaliative duties on food-stuffs. America would be compensated for the diminution in sales of wheat, etc., to the tariff-league by an increase in its sales to the rest of the world: the tariff-league would be compelled to buy more from Austria-Hungary, Roumania, Russia, Argentine and India. America would doubtless sell on less favourable terms; but this would by no means involve a calamity sufficient to force it to give way.

America are *agricultural*. Their value in the years 1900-02 amounted to 22,000,000, 16,000,000, and 10,000,000 marks respectively. To make them dearer would be to deteriorate the condition of our agriculture.

Of *sewing* machines, America imported into Germany during 1900 - 02 to the yearly value of 3,000,000 to 4,000,000 marks. Less objection would be raised against checking the import of this species of machines. Our own manufactories would be able to provide a substitute for the excluded American products at not materially higher prices.¹ But it would serve no purpose. Germany in 1900-02 exported to the value of from 20,000,000 to 22,000,000 marks per annum. By levying duties on the American products we might increase the sale of our own productions at home, but America would compensate itself by gaining on us in the markets of the world. This mode of punishment gives no promise of success.

¹ The case of agricultural machines is different. The American home market for such machines is so vast that they can be manufactured in the States materially cheaper than in Germany.

In 1900-02 America imported machinery into Germany of the yearly value of 51,500,000 marks. The import fell like that of agricultural machines but to a greater degree, because the depression that began in 1900 made itself felt in the manufacturing industries more severely than in agriculture.

There can be no doubt that if we recovered the high prosperity of 1897-1900 the import of machinery from America would again increase. But to operate with retaliative duties on machines of this kind would be about the greatest piece of stupidity that could be perpetrated in tariff - policy. The cheaper we can buy, then, the greater our ability to compete both at home and abroad. The more we buy of them, the larger the number of industrial branches in which they are applied, the sooner shall we be in a position to manufacture them ourselves and to be abreast of the United States as regards their construction.

America's superiority is mostly over-estimated: it exists only as regards certain specialities: and that, in general, we are

already able to compete with the States is proved by the fact that in 1900 we exported machinery worth 7·8,000,000 marks, in 1901, 6·2,000,000, and in 1902, 14·7,000,000.

In America they are lamenting over the "industrial suicide" which the export of machinery means for them. That is foolish: but we should be guilty of still greater folly if we were to try to prevent this "suicide," by means of retaliative duties.

By "condescending on details" as I have done in the foregoing exposition, I have made good a defect which has attached to most discussions of Retaliation—the defect, namely, of dealing in generalities, which Free-traders take as justifying or requiring an unconditionally *negative* judgment, and Retaliationists take as equally justifying an unconditionally *affirmative* judgment. It is necessary rather to distinguish according to the kind of objects on which penalties fall, though in an essentially different way from Lord Salisbury's.¹

¹ This discriminative analysis might have been undertaken quite as naturally, of course, in the section on "The Policy of Retaliation," but was omitted there in order to avoid repetition.

We have seen that at one time there is no chance of victory, at another there is. We have seen further that even in the latter case, retaliative measures ought never to be resorted to with the feeling that it is "all one," that "it doesn't matter," which is professed by some of the present adherents of the Balfour-programme in England, and by the Coryphaei of the Agricultural League with us. If our opponent's industries are prejudicially affected, so are our own: if its effect is to injure, dislocate, and upset the industrial life in the one case, it is the same also in the other—the wielder of the weapon is wounded, no less than the enemy against whom its blow is directed.¹

The *element of cost*, as I briefly remarked above, needs to be most carefully considered. If, after all, the relevant circumstances have been soberly weighed, exclusively from the point of view of the policy of Retaliation and without being led astray by the Protectionist hope of fishing in the troubled water of a tariff-

¹ "The policy of government—we are told—is Retaliation in cases where it can be effectively employed *without injury to ourselves*" (*Economist*, 1904, p. 255). Such "cases" as has been shown above, unfortunately have no existence.

war, the conclusion is reached, that the probability of success is greater than that of failure, then a tariff-feud is justifiable—as justifiable as any other feud carried on for a good cause. The attempt to convert foreign nations from Protection by the method of a tariff-war, conducted either through a general tariff, or through a differential tariff against single nations, is exactly as permissible as the attempt to bring them nearer the ideal of mutual Free-trade by the method of peaceful negotiations, which were not preceded by any sort of tariff-mobilisation. The latter method, as well as the former, involves the risk of an aggravation, instead of a moderation of commercial antagonism.

Applied to the *right objects*, carried out with a *wise hand* at the *proper time*, a policy of Reciprocity may serve the purpose of internationalising Free-trade.

But a sharp look-out must be kept for the possibility, which is as good as never excluded, of having a termination the very opposite of that which was expected. If a nation which has once armed itself with a general tariff, or

with a series of differential tariffs, once becomes convinced that the end it had in view will not be realised either at once or within a calculable period, that, in short, it has succeeded only in doing itself harm—succeeded, that is, in doing what it could not help doing *if* it injured its opponent — it is very questionable, indeed, whether such a nation will ever be able to put its armour off.

To mobilise a tariff-policy is easy ; to restore the *status quo* may prove to be very difficult indeed. If the retaliative apparatus has been employed in vain for a considerable time, and if it has worked protectively for certain branches of national industry, that is, caused them to expand—an effect which, though not at all desired, could not be hindered—its employment may have to drag on *ad infinitum*. Attention was directed to this point in the section on the policy of Retorsion or Retaliation. What has been said holds equally true of the policy of Reciprocity, with the difference that the danger of running into a blind alley is considerably greater. A fighting-tariff, directed against a single opponent and punishing only

certain of the principal articles exported by him, may be much more easily revoked than a general tariff directed against a number of opponents and affecting a large number of wares.¹

The Protectionist speculates on this blind alley. For the sake of this prospect he will always be inclined to lend his support to a policy of tariff-mobilisation. The Retaliator cannot but dread it. In his view, Free-trade is in itself the best system. He has come to see what the Protectionist, alas! does not understand, that to levy duties is to decrease the national industry. He deprecates the Protectionist effect; he wants to use duties solely as projectiles for making a breach in the tariff-walls of other countries; he has no desire that they should rebound, and then be used as materials for a permanent inland tariff-wall.

What threatens England at the present moment if it adopt the Balfour-programme is

¹ If the retaliative policy is restricted, as British Retaliators seem to wish, to the construction of single differential tariffs, and no general tariff is introduced, then the revocation will, of course, be much easier.

just the prospect that a policy intended to open up new foreign markets will really have no effect but "to revive extinct markets at home,"¹ and that a penalty aimed at foreign wares will do nothing but "encourage the production of similar articles at home" (a production of such articles, with more national labour than would have to be spent on the production of the exports which would buy the same articles from the foreigner; in other words, a dislocation of the inland production, which means that the national cost of producing rises, while the national power of production falls).

It may be that, if the "Quaker" now takes up arms and punishes certain nations by means of retaliative duties, he will meet with success. In that case his policy is good. But suppose that, as is equally possible, England effects little or nothing with its duties and finds itself in a blind alley, would it not have been better to remain a "Quaker"? If the result of its retaliative policy would be entanglement in the net of Protectionism, would it not lose

¹ (See *Economist*, 1904, p. 163.)

the economic advantage which it has hitherto enjoyed over Germany, France, and the United States—the advantage, namely, thanks to Free-trade, of procuring the productions of foreign countries which it needed, and the things with which it paid for these foreign articles, by means of a minimum of national labour. It may be that England has already reached, or even overpassed, the zenith of its commercial career; that, in consequence of the scanty output of raw materials (iron-ore and coals) from certain sources, she is already on the down grade. Opinions on the subject may differ. For myself, I am of the opinion that the notion of the *décadence de l'Angleterre* is almost as mistaken now as it was when Ledru - Rollin advanced it in 1850.¹ Unquestionable, however, it is that the *décadence* would become *more marked*. England's ability to compete in the markets of the world would decrease *still more quickly* if she paid for a policy of Retaliation with permanent protective duties.

¹ See my "Produzenteninteresse der Arbeiter und die Handelsfreiheit," 1903, p. 3.

Might not such an issue of the Balfour campaign against "one-sided Free-trade" be a desirable thing for Germany? Would not our position in the struggle for the markets of the world be strengthened if our most powerful rival hung on to himself the leaden weight of Protection? Undoubtedly. Yet such an issue should not for that reason be by any means welcomed from the point of view of German interests. Why not? Because, if the result of the victory of Protection on the other side of the Channel were a less perfect division of the world's labour than has existed hitherto, German industries would necessarily go back. Germany no less than England would become the poorer for the change from intercourse to exclusion.

It is scarcely, however, to be seriously apprehended. Public opinion, though the very skilfully planned agitation took it at first by storm, seems more and more to regard the plan of the Premier with scepticism. Perhaps also the failure thus far of the policy of Reciprocity followed by Germany may have

helped to intensify and spread this sceptical attitude.

In conclusion, I should like to illustrate by a concrete, actual example—namely, by a presentation of the reasons why the German Commercial - Treaty campaign of 1902 progressed so much more lamely than that of 1891—what I meant by saying, as I previously did say, that to the carrying out of a retaliative policy, success depends, not merely on the particular kind of objects, but also on the *right time* and the *wise hand*.



CHAPTER III

GERMANY'S POLICY OF RECIPROCITY IN 1891 AND IN 1902

FROM 1879-91 our tariff was constructed solely on the principle of putting difficulties in the way of foreign competition. *Caprivi* did not give up the principle of Protection, but added that of Retaliation to it. Since the "Reform" of 1879, Germany had levied equally high duties on the wares of all countries alike; in 1891 it created two tariffs. The general tariff with its higher duties was applied to those countries which "treated our exports badly," that is, refused to make either any concessions at all, or such as we considered adequate. This was the punishment for their commercial hostility. The conventional tariff with its lower duties, on

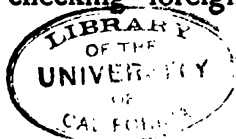
the contrary, was applied to the countries which "treated us better," which entered into agreements with us relatively to certain tariff-reductions, or, at all events, combinations. This was their reward for being less buttoned up. It was, in fact, though the name was not currently given it, a policy of "Retaliation," similar to that which the English Premier is now aiming at, with the obvious difference that whilst *Balfour* wishes to substitute Retaliation for the Free-trade which is still practised, *Caprivi* was preparing to put an end to the exclusive prevalence of Protection, by introducing the principle of Retaliation.

Why did Caprivi succeed with his "fiscal inducements"? How came he to persuade a number of nations to adopt relatively to Germany a more liberal tariff-practise?

First, because the Reciprocity policy of 1891 had a *clear end* in view :—commercial exchange between Germany and other countries, after having been held back for ten years by agrarian protective duties, levied with ever greater stringency, was to be made easier,

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and, above all, export of our industrial products was to be increased. That the latter purpose could not be attained apart from an increase in the imports of food-stuffs and raw materials, the Chancellor was quite aware. He frequently and emphatically pointed out that we can only sell more to foreign countries on the condition that we buy more from them; that we can only dispose of a larger quantity of manufactures to agrarian States on the condition that we take from them a larger quantity of agrarian products than heretofore. If Germany wants new markets to be opened for its own industries, it must open its own market more widely to the agricultural productions of Austria-Hungary and so forth—with the result of diminishing the income of certain groups of German agriculturists. He put the alternative as pointedly as possible: *either*, work towards a furtherance of your industries by the promotion of trade with foreign countries, and thus increase the national wealth; *or*, oppose industrial progress, as was done by checking foreign trade through a



higher tariff in 1879, 1885, 1887, and thus reduce the national wealth below its possible maximum.

Secondly.—The policy of 1891 was successful because it started from a *fixed basis* in the existing tariff—a tariff whose workings were perfectly well understood both by ourselves and by the countries which carried on trade with us.

Further. — Because the *conjuncture was favourable*. Just then the net of French commercial treaties had been rent: the United States of America and Russia had immensely heightened their tariffs, and Central Europe was in a mood for closer association and tariff concessions. Provided that Germany was on its guard against crushing the mood by brusquely intervening, there was a prospect of attaining the end.

Caprivi had the good sense to avail himself of these favourable circumstances. In point of fact, the policy of 1891 was a success because Germany applied the method of *allurement*—if I may so express myself. He declared: We have no intention of draw-

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ing the bow still tighter ; on the contrary, we are decidedly inclined to slacken it, provided other nations will reward like with like. Let us negotiate and ascertain how the duties now levied can be reduced, in view of the resistance which will be offered, on the one hand, by our Protectionists, and on the other, by yours. How far we may be able to go remains to be seen ; but undoubtedly the more you concede, the further we can go ; there is no *non plus ultra* on our side.

This conciliatory tone caused the tone of the other contracting parties to be more conciliatory. As treaties were pretty soon contracted with a number of States, Germany was able to take high ground with the one State which was disposed to be obstinate, namely Russia, and to employ all its tariff resources in bringing it to a right mind.

The policy of 1902 has thus far no conquests to boast of. To come to terms with Italy and Belgium required no special skill.¹ Whether we shall succeed in finding a new *modus*

Besides that we are still quite ignorant of the nature of the conditions—whether these countries make the same concessions as heretofore to German industrial exports.

vivendi with the agrarian States? in any case, none that will be as advantageous to our export interests as hitherto. So much, at any rate may be definitely prophesied, that this Commercial-Treaty campaign will not end so quickly, nor so happily, for our industry as did the campaign of 1891. Why?

First of all, because the policy of 1902—a policy which may be said, perhaps, to have been contemplated since 1897 and which became a *fait accompli* in 1902—*had not a clear end in view.*

It proclaimed itself as a policy of the *via media*, that is, of unclearness. Instead of settling with itself whether to aim at the furtherance of industry or at an artificial maintenance of agriculture; whether to do more for a world-wide or for a home market, our Imperial Government left the alternative *in suspenso*. It tranquillised itself and the unreflecting majority of the public with a nebulous phrase which every one was left to interpret as he chose—a phrase which is only intelligible as the outcome of an effort to offend neither agriculturists nor manufacturers. Its

purpose was, at all events, to postpone as long as possible a fatal encounter with the one or the other of the opposed interests, which no *via media* can possibly reconcile: that is, to postpone matters till the new treaties should have been considered in Parliament, otherwise, till a declaration has been made by the Imperial Diet that such treaties cannot be supplied.

Because the man without "ear and stalk" (ohne Ar und Halm) wanted to favour Industrial, at the expense of Agrarian, Germany; because he met the panegyrists of the home market with a frank, No; because he steered a straight course, undisturbed by the noise of his opponents; his saving policy was a success. In the present Chancellor, on the contrary, dwell two souls. With the one he no doubt wishes that industrial exports may grow, but with the other he also wishes that agrarian imports may diminish. He would like to steer two divergent courses at one and the same time.

Further, the vessel of commercial treaties still drifts about on the open sea because the

policy of 1902 *gave up the fixed basis* on which it might and should have remained. It was thought to be necessary to construct a new tariff with, in part, much higher duties than those of the old one. What effects this new tariff will have on Germany and on foreign nations, no one at present can with approximate certainty predict: it means a leap in the dark. I shall return to this point at once.

Still further, the chances of success are to-day so much less than they were at the earlier date, because the mood of the nations from which we desired concessions affecting duties on our exports—concessions equal, at least, to the previous ones—is just now much more irritable and nervous. *The conjuncture is less favourable.*

But the chief fault rests with our Imperial Government and the majority of the Diet. The ultimate reason why the policy of 1902 has thus far no acquisitions to boast of, is that Germany itself made the conjuncture less favourable by applying the method of *preparing for war*, which it did by constructing a new tariff, with far higher duties.

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Some of the duties, particularly those on agrarian products, had been heightened in consequence of the vehement pressure of those who were interested in Protection: most of them, however, only for the sake of having "objects of compensation" ready to hand, that is, things to bargain with in the negotiations to be carried on anent treaties of commerce.

Our leading Statesmen, as well as the parties of dominating influence, regarded this tactic as absolutely requisite and in the highest degree promising. This was the judgment also of a section of our economic authorities, specially of Schmoller and his school. They argued, seeing that individual peoples, especially the United States of America, have recently made their tariff-walls higher, Germany must at all events *act as* if it also were determined to build its tariff-walls higher. By doing this, it will inspire the whole world with a wholesome fear.

Up to this time this method of *arming*, the opposite of that of allurement adopted by Caprivi, has borne next to no fruit. And that it would not do so might easily have been foretold. The plan just described was

doomed to be illusory, in that it could and would be universally copied. This result was absolutely certain; though it would almost seem as if the apostles of the arming policy had been—to use the words of Herrn Oertel—so unsuspecting and harmless as not to dream of it, or, at all events, not to have an idea of its further consequences. When a nation puts on a more potent tariff-coat-of-mail and pleads in excuse that it needs weapons for its struggle with other nations, one may be absolutely certain that this kind of heavy costume will become the almost universal fashion. Even the nations which might prefer a lighter toilette will adopt the same dress.

Germany set the bad example—which is “nowhere so contagious as in connection with tariff-policy” (H. Schacht). Russia, Austria-Hungary, Roumania, Switzerland, Portugal, Holland, Servia, followed suit. Recently too the idea of a Scandinavian tariff-union has been mooted, and is justified by an appeal to the arming of Germany. And the reason why Balfour’s programme met—at all events in the first instance—with so much approbation,

was traceable, not indeed entirely, but certainly in good part, to the fact that many English exports were threatened by our new tariff. Formerly, America was regarded as the chief enemy against which England had to defend itself; now it is "Germany that is specially signed for revenge."

An international arming epidemic broke out. Everywhere, indeed, it was said, We are not at all desirous of a tariff-war; we are acting only on the maxim, so often proclaimed among us, "*Si vis pacem para bellum.*" Count Posadowski having given the assurance that the designs of Germany were not so bad, that it was ready to listen to reason, the remaining Knights of the Tariff-Tournament gave the same assurances—in principle they were all in favour of treaties.

The arming of other nations is doubtless as far from being quite seriously meant as that of Germany. But there can be no doubt that, in consequence of this universal reconstruction and heightening of the tariffs to which Germany has unadvisedly given occasion, the difficulties which in any case—even in that of maintain-

ing the old lower tariffs—would have stood in the way of new treaties, have been extraordinarily increased. Even that section of our Industrial press which at first enthusiastically welcomed the arming method—which had greeted the higher general tariff as a splendid means of hectoring more favourable tariff-conditions out of foreign nations—soon began to indulge in melancholy complaints that considerable time will probably pass before treaties are actually concluded.

Negotiations, instead of being based on existing, well-known tariffs, must now be based on entirely new tariffs, which have not been tested in practice. . . . Business men have not yet been able to get any experience of these tariffs; both Governments and negotiators must study the innovations before they can formulate their demands.¹

But how they are to be helped to certain knowledge by such studies is not apparent: what demands they should make can only be certainly known, when they know how the

¹ "Deutsche Volkswirtschaftliche Correspondenz," February 1903.

new tariffs will work out in practice; and this can only be known after experience of their working.

It is possible that, notwithstanding the confusion caused by this international epidemic of arming, the Governments may come to some agreement: perhaps the Parliaments will endorse the settlements arrived at by the negotiators. But it is also possible that the whole thing may break down when it reaches the Cabinets. This may come to pass because the negotiators have insisted too strongly on arming; or because the one believes the other will at last beat a further retreat, and the right moment for yielding is passed. It may be, because the negotiators, being afraid of the hubbub which the Protectionist party of their country will raise, do not venture to make adequate concessions. Even if Germany had not mobilised, it is by no means certain that the negotiations would have run as smooth and as satisfactory a course as in 1891. But now the danger that nothing or too little will come of them is far greater, not only because of the effect

of our new tariff on outsiders just referred to, but also because of another no less fatal effect thereof at home.

A further result, not less absolutely certain, of the construction of a *tariff to negotiate with* is, namely, that Protectionist cupidities will thus be let loose. The Government may have assured the trade circles that are interested in the higher duties imposed for the sake of having something to offer by way of compensation ever so energetically, that the said duties were only proposed with a view to bargaining; the circles in question will soon have forgotten that side of the matter, and will regard the duties as protective which were meant to be retaliative, and will set up a claim to their being enforced as such.

Under such circumstances it is impossible but that when treaties of commerce are submitted to popular representative bodies, the Protectionist party should not raise a disturbance and cry out that sacrifices are being required of them which must bring the national industry to the very verge of ruin, and that what they are losing far exceeds

what has been squeezed out of the foreign country. There is always opposition to be overcome at home. But if the Government bait their negotiation-tariff with a far higher dose of Protection than was compatible with the concessions demanded by the contracting parties, then the Protectionists will create a much greater disturbance than if they had never been led to expect anything.

Qui vivra verra! When the commercial treaties with Belgium, Austria - Hungary, Switzerland, come to be discussed—that is, the treaties which contain reductions of the industrial duties of the tariff of 1902—the Imperial Council will complain of the short memory of German manufacturers; they will say to them, You knew that in most cases we were merely pretending to heighten the industrial duties! And when the commercial treaties with Russia, Roumania, and Italy are discussed, there will be complaints that the agrarians are also unwilling to remember that the proposition to heighten the duties on timber, cattle, and garden-produce, though more seriously thought of, was never quite

seriously entertained. "I summoned the spirits, but send them away again, I cannot."

It seems as if this result of the method of arming had either been overlooked or, at all events, far from adequately appreciated by its intellectual originators. The unchaining of Protectionist cupidities by pretending what is not intended will soon enough be seen in all its glory.

When Caprivi was advised to enter on negotiations with a new higher tariff instead of with the old one, he declared that he regarded that way as the worst conceivable; there would then be far less chance of obtaining good treaties. The course run by things since 1902 has shown that he was quite right.

If Germany had followed again the tactics of 1891, that is, if we had increased those items, the heightening of which seemed to be quite necessary in view of the hubbub raised by the people east of the Elbe, that is, if higher duties had been put on bread-grain, the international epidemic of arming would probably never have broken out; at all events, not in

its present extended and malignant form. If instead of showing our teeth we had adopted a conciliatory tone, if further we had stuck to the old general tariff—with the exception of the duties on bread-grain—adopting the old conventional tariff as the basis of negotiations with our partners hitherto, the difficulties and the opposition both from without and from within would have been far less than they actually are.

In the report which Sir John Bowring rendered to his Government on the question how England might increase its industrial exports to the territory of the German Zollverein, he said: "Much depends on us: we ought to try to enlist the agrarian and industrial interests on our side." In opposition to the maxim at present adopted by us, "*Si vis pacem, para bellum*," the English politician advocated the maxim, "*Si vis pacem, quaere socios*."

Our position relatively to the agrarian States quite closely resembles the position of England at that time relatively to Germany. We also ought to have endeavoured to enlist the

agrarian and industrial interests there on our side with a view to increasing our industrial exports.

Instead of that we went to work as if we aimed at the very opposite. Our enemies in foreign countries are the manufacturers. For fear of being beaten by German competition, they necessarily do everything in their power to frustrate commercial treaties, which would facilitate the entrance of our goods into their markets. These enemies cannot be conciliated: the only thing practicable is to prevent the other groups of traders who are disposed to welcome commercial treaties with us—particularly the agrarians, and along with them, the dealers or merchants—from making common cause with them.

The method of arming ourselves had the very opposite effect. In our new general tariff we imposed higher duties on every kind of foreign agrarian product—on some items very high indeed; we settled the lowest rates for grain and heightened those on other agrarian products to such a degree that apart from very great reductions it would be impossible for

Russia to send goods to the German market, even on the conditions heretofore prevailing, and by thus acting, we drove the agrarians and the merchants into the arms of the manufacturers. Not only did we decidedly raise every item of our tariff, but we made it impossible for foreigners to guess how far we were really serious, the result being that even groups of traders who would willingly have met us half way, were maddened, and preferred rather the war-trumpet than the pipe of peace. The arming-method changed the mood and led to a coalition of our sworn foes with our natural allies.

Had Germany adopted again as in 1892 the method of persuasion, foreign agrarians and merchants would have been the allies of our export manufacturers, and would have resisted the Protectionist tendencies of their own manufacturers. The work of negotiating treaties would have been made easy ; whereas it has been made very difficult — uselessly difficult.

That the Landlords' League and the Parliamentary and Academical advocates of

Agrarian Germany should rapturously welcome the method was intelligible enough. They would have best liked to compel their fellow-citizens to swallow the general tariff of 14th December 1902 whole and entire; provided that it worked protectively they would not have troubled about its failure retaliatively.

But that men who in truth wish the tariff-policy of our country to conform to the principle of Retaliation, at all events in part; who are genuinely in favour of treaties; who really desire that the industrial exports of Germany should in future have freer course than heretofore, or at all events one as free; that *they* should consider this arming-method wise is to me utterly unintelligible.

Possible, indeed, it is—as I have already distinctly allowed — that the method may lead to the goal. But it means making a perfectly useless detour, with a corresponding extraordinarily increased risk of failure—a risk which, as was also allowed, even the other method does not absolutely exclude. The detour referred to might very easily lead to an extension of the very Neo-Mercantilism which

the apostles of the arming-method are anxious to diminish.

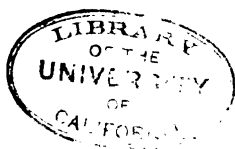
The real power and prestige of Germany were by no means advanced by the insertion into the new negotiation tariff of far higher duties than it really meant to insist on: its opponents got hold of these paper power-instruments immediately and free of cost. By their means, Germany only caused general confusion and piled up hindrances which might have been avoided.

The Caprivi - method had a far greater prospect of success than the Bülow-method—this tactic of asking more than one expects to get, and after haggling, reducing—a species of tactics which, as Barth mockingly remarked, is only adopted in diplomacy that is concerned with the sale of old coats and breeches.

Retaliation, says Adam Smith, is justifiable if there is a chance of success. The policy of 1891 was good: it aimed at being a means of securing Free-trade, that is, to speak more precisely, a means of securing *freer* trade; its principle was to work along the line of least resistance. The policy of 1902 was bad: it

aimed at increasing freedom on the one side, at decreasing it on the other; it provoked resistance needlessly by operating, instead of with the method of allurements, with the much more precarious one of arming. Whilst the chance of success in the former year was great, the chance now is much slighter.

Let us hope that, notwithstanding, "All's well, that ends well"; and, if not, that Germany, at all events, has learnt how in the future *not* to carry out a policy of Retaliation.



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